



FEDERAL RESERVE SYSTEM

Agency information collection activities: Announcement of Board approval under delegated authority and submission to OMB

AGENCY: Board of Governors of the Federal Reserve System

SUMMARY:

Notice is hereby given of the final approval of proposed information collection by the Board of Governors of the Federal Reserve System (Board) under OMB delegated authority, as per 5 CFR 1320.16 (OMB Regulations on Controlling Paperwork Burdens on the Public). Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the Paperwork Reduction Act Submission, supporting statements and approved collection of information instrument(s) are placed into OMB's public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

On July 6, 2012 the Federal Reserve published a notice in the Federal Register (77 FR 40051) requesting public comment for 60 days to extend for three years, with revision, the FR Y-14A/Q/M. The comment period for this notice expired on September 4, 2012. The Federal Reserve received eight comment letters. The substantive comments are summarized and addressed below.

FOR FURTHER INFORMATION CONTACT:

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Final approval under OMB delegated authority of the extension for three years, with revision, of the following report:

Report title: Capital Assessments and Stress Testing information collection.

Agency form number: FR Y-14A/Q/M.

OMB Control number: 7100-0341.

Effective Date: September 30, 2012.

Frequency: Annually, quarterly, and monthly.

Reporters: Large banking organizations that meet an annual threshold of \$50 billion or more in total consolidated assets (large Bank Holding Companies or large BHCs), as defined by the Capital Plan rule (12 CFR 225.8).¹

Estimated annual reporting hours: FR Y–14A: Summary, 25,080 hours; Macro scenario, 930 hours; Counterparty credit risk (CCR), 2,292 hours; Basel III/Dodd-Frank, 600 hours; and Regulatory capital, 600 hours. FR Y–14 Q: Securities risk, 1,200 hours; Retail risk, 1,920 hours; Pre-provision net revenue (PPNR), 75,000 hours; Wholesale corporate loans, 6,720 hours; Wholesale commercial real estate (CRE) loans, 6,480 hours; Trading risk, 41,280 hours; Basel III/Dodd-Frank, 1,800 hours; Regulatory capital, 3,600 hours; and Operational risk, 3,360 hours; and Mortgage Servicing Rights (MSR) Valuation, 864 hours; Supplemental, 960 hours; and Retail Fair Value Option/Held for Sale (Retail FVO/HFS), 1,216 hours. FR Y–14M: Retail 1st lien mortgage, 129,000 hours; Retail home equity, 123,840 hours; and Retail credit card, 77,400 hours. FR Y–14 Implementation and On-Going Automation: Start-up for new respondents, 79,200 hours; and Ongoing revisions for existing respondents, 9,120 hours.

Estimated average hours per response: FR Y–14A: Summary, 836 hours; Macro scenario, 31 hours; CCR, 382 hours; Basel III/Dodd-Frank, 20 hours; and Regulatory capital, 20 hours. FR Y–14Q: Securities risk, 10 hours; Retail risk, 16 hours; PPNR, 625 hours; Wholesale corporate loans, 60 hours; Wholesale CRE loans, 60 hours; Trading risk, 1,720 hours; Basel III/Dodd-Frank, 20 hours; Regulatory capital, 40 hours; Operational risk, 28 hours; MSR Valuation, 24 hours; Supplemental, 8 hours; and Retail FVO/HFS, 16 hours. FR Y–14M: Retail 1st lien mortgage, 430 hours; Retail home equity, 430 hours; and Retail credit card, 430 hours. FR Y–14 Implementation and On-Going Automation: Start-up for new respondents, 7,200 hours; and On-going revisions for existing respondents, 480 hours.

Number of respondents: 30.

General description of report: The FR Y–14 series of reports are authorized by section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which requires the Federal Reserve to ensure that certain bank holding companies (BHCs) and nonbank financial companies supervised by the Federal Reserve are subject to enhanced risk based and leverage standards in order to mitigate risks to the financial stability of the United States (12 U.S.C. 5365). Additionally, section 5 of the BHC Act authorizes the Board to issue regulations and conduct information collections with regard to the supervision of BHCs (12 U.S.C. 1844).

As these data are collected as part of the supervisory process, they are subject to confidential treatment under exemption 8 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(8)). In addition, commercial and financial information contained in these

¹ The Capital Plan rule applies to every top-tier large BHC. This asset threshold is consistent with the threshold established by section 165 of the Dodd-Frank Act relating to enhanced supervision and prudential standards for certain BHCs.

information collections may be exempt from disclosure under FOIA exemption 4 (5 U.S.C. 552(b)(4)). Such exemptions will be made on a case-by-case basis.

Abstract: The data collected through the FR Y-14A/Q/M provides the Federal Reserve with the additional information and perspective needed to help ensure that large BHCs have strong, firm-wide risk measurement and management processes supporting their internal assessments of capital adequacy and that their capital resources are sufficient given their business focus, activities, and resulting risk exposures. The annual Comprehensive Capital Analysis and Review (CCAR) is also complemented by other Federal Reserve supervisory efforts aimed at enhancing the continued viability of large BHCs, including (1) continuous monitoring of BHCs' planning and management of liquidity and funding resources, and (2) regular assessments of credit, market and operational risks, and associated risk management practices. Information gathered in this data collection is also used in the supervision and regulation of these financial institutions. In order to fully evaluate the data submissions, the Federal Reserve may conduct follow up discussions with or request responses to follow up questions from respondents, as needed. Respondent BHCs are required to complete and submit up to 17 filings each year: one annual FR Y-14A filing, four quarterly FR Y-14Q filings, and 12 monthly FR Y-14M filings. Compliance with these information collections is mandatory.

The annual FR Y-14A collects large BHCs' quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios.² The quarterly FR Y-14Q collects granular data on BHCs' various asset classes and PPNR for the reporting period, which are used to support supervisory stress test models and for continuous monitoring efforts.³ The monthly FR Y-14M comprises three loan- and portfolio-level collections, and one detailed address matching collection to supplement the two loan level collections.

Under section 165 of the Dodd-Frank Act, the Federal Reserve is required to issue regulations relating to stress testing (DFAST) for certain BHCs and nonbank financial companies supervised by the Board. On January 5, 2012, the Board published a proposal (77 FR 594) which includes new reporting requirements found in proposed regulations at 12 CFR 252.134(a), 252.146(a), and 252.146(b) all related to stress testing. The Federal Reserve anticipates that further detail regarding these proposed reporting requirements and the PRA burden associated with these requirements would be addressed in a future FR Y-14 proposal.⁴

² BHCs that must re-submit their capital plan generally also must provide a revised FR Y-14A in connection with their resubmission.

³ BHCs are required to submit both quarterly and annual schedules for third quarter data, and with the exception of the Basel III/Dodd-Frank and Regulatory Capital Instruments schedules. For these schedules, only data for the annual schedules are submitted for the third quarter data.

⁴ The proposed rules would implement the enhanced prudential standards required to be established under section 165 of the Dodd-Frank Act and the early remediation framework established under section 166 of the Act. The enhanced standards include risk-based capital and leverage requirements, liquidity standards, requirements for overall risk management, single counterparty credit limits, DFAST requirements, and

Current actions: On July 6, 2012, the Federal Reserve published a notice in the Federal Register (77 FR 40051) requesting public comment for 60 days to extend for three years, with revision, the FR Y-14 information collection. The comment period expired on September 4, 2012. The Federal Reserve received eight comment letters from four BHCs and six trade associations.⁵ All substantive comments are summarized and addressed below. Also addressed are comments related to the collection of data on legal reserves for pending and probable litigation claims which were originally proposed in February 2012.⁶

The FR Y-14A/Q/M revisions proposed in the Federal Reserve's July 2012 Federal Register notice, effective September 30, 2012, included (1) implementing three new quarterly reporting schedules (Mortgage Servicing Rights Valuation, Supplemental, and Retail Fair Value Option/Held For Sale schedules), (2) revising the respondent panel, (3) enhancing data items previously collected on various schedules, (4) deleting data items that are no longer needed, (5) adding attestation of data accuracy, and (6) collecting contact information. The Federal Reserve proposed the revisions based on experience gained from previous capital review and stress testing efforts. The revisions provide the Federal Reserve with new information to refine its analysis, while removing data items that are no longer deemed necessary for such analysis.

Summary of Comments

The Federal Reserve received comments from the industry by letter, email, and orally through industry outreach calls. Most of the comments received requested clarification of the instructions for the information to be reported, or were technical in nature. Response to these comments will be addressed in the final FR Y-14 reporting instructions. The Federal Reserve also received a number of comments on matters that were not directly related to the FR Y-14 information collection, such as a request to use a consistent file format and requests for clarification of general CCAR procedures and timeline. The Federal Reserve plans to take these comments under consideration and address them at a later date, as appropriate. The following is a detailed discussion of aspects of the proposed FR Y-14 collection for which the Federal Reserve received one or more substantive comments and an evaluation of, and response to, the comments received.

debt-to-equity limits for companies that the Financial Stability Oversight Council has determined pose a grave threat to financial stability. The 2011 proposal implementing the FR Y-14A and Q acknowledged the impending publication of the DFAST reporting requirements under section 165 of the Dodd-Frank Act. That proposal included a statement noting that revisions to the quarterly and annual data collections, based on the enhanced standards rulemaking, would be incorporated into the FR Y-14A and Q information collection.

⁵ Three trade associations submitted a joint comment letter.

⁶ Notice of this proposal action was published in the *Federal Register* (77 FR 10525, February 22, 2012). The Federal Reserve received six comment letters addressing the proposed changes to the FR 14A and Q. In response to public concerns over the sensitivity of these legal reserves data, the Federal Reserve postponed implementing the data items and reopened the public comment period (77 FR 32970, June 4, 2012). The comment period expired on August 6, 2012 (77 FR 38289, June 27, 2012). The Federal Reserve received four additional comment letters addressing the collection of the legal reserves data items.

A. General

In general, commenters expressed support for the objectives of the proposal to revise the FR Y-14; however, they expressed concerns about the overall expansion of the information collection and the increased granularity of the data being collected. Specifically, several commenters noted that the proposal substantially increased the number of data items on various schedules, leaving BHCs insufficient time to make appropriate changes to their models, modify reporting systems, and integrate these systems with internal controls structure. These commenters also requested delayed implementation of the revisions to several schedules or guidance for BHCs that have missing or incomplete data. The commenters also provided suggestions around operational aspects of the collection and requested additional clarification on the proposed revisions.

The Federal Reserve weighed the potential increase in respondent burden against the need to collect additional information to enhance the Federal Reserve's ability to conduct supervisory stress testing and made certain modifications to the proposal in response to the comments received. Specifically, the Federal Reserve will eliminate certain proposed data items from selected data schedules and also delay the effective date of the new Mortgage Servicing Right (MSR) Valuation schedule as noted below.

Commenters generally expressed concerns about the proposed attestation requirement for the FR Y-14 submission. Several commenters noted that the Federal Reserve has continued to revise the information collection since first implementing it in 2011; therefore, the scope and form of the information collection have not been sufficiently solidified to allow BHCs to establish the infrastructure, general controls, and system validation requirements to comply with the proposed attestation requirement. Several commenters opposed a near-term attestation requirement, requested that any future attestation requirement be tailored to the FR Y-14, suggested various modifications to the attestation requirement, and opposed an attestation requirement for projected financial data. One commenter suggested a safe harbor provision for any attestation of projected data.

The Federal Reserve acknowledges that BHCs require time to continue developing and improving the infrastructure and controls needed to accommodate the FR Y-14 collection and to support attestation. As such, the final schedules and instructions do not include an attestation requirement at this time to allow BHCs time to make these improvements. However, the Federal Reserve believes appropriate controls are crucial to ensure data quality and that attestation is an important affirmation of data quality, and may revisit the attestation requirement in a future proposal. The Federal Reserve also notes that under federal law, BHCs are prohibited from making a false entry in a report to the Federal Reserve.⁷

⁷ See, for example, 18 U.S.C. § 1005.

One commenter indicated that foreign privacy and blocking laws may restrict BHCs from reporting on the FR Y-14 any identifiable client information about their foreign clients. In response to this comment, the Federal Reserve will revise the final FR Y-14 reporting schedules and instructions to provide that a BHC will not be required to report a particular data item if a foreign law prohibits the BHC from providing the information to the Federal Reserve. However, the Federal Reserve is authorized by law to collect information from a BHC regarding its credit exposures, including foreign exposures, and a BHC will be required to include with its data submission a legal analysis of the foreign law that prohibits reporting the data to the Federal Reserve.⁸ As noted above, data collected through the FR Y-14 schedules is confidential information and the Federal Reserve has no present intention to make the information public.

One commenter noted the difficulty in completing FR Y-14Q/M schedules during acquisitions as the acquiring institution would not yet have the acquired institution's data on their general ledger or loans systems on the date when the acquisition is finalized. Referencing the final *Federal Register* notice issued on June 4, 2012,⁹ which noted that the Federal Reserve would consider requests to file delayed submissions for newly acquired data following an acquisition, the commenter asked the Federal Reserve to establish a formal process and criteria for requesting and determining a grace period. The Federal Reserve agrees with this comment and is considering ways to formalize the process and criteria, as appropriate.

Several commenters provided suggestions for reducing the burden associated with the information collection, including suggestions related to the use of consistent file formats. The Federal Reserve appreciates these suggestions and will work to improve the data collection process, considering all suggestions aimed at reducing reporting burden. During the public comment period, the Federal Reserve sought additional feedback from first-time respondents on ways to reduce reporting burden. One commenter responded that a tailored materiality threshold would increase, rather than decrease burden by adding complexity. This commenter noted that a transition period that takes into consideration related and overlapping deadlines would be useful in reducing reporting burden. The Federal Reserve will provide first-time respondents with a transition phase including extended filing deadlines, as follows: for the Y-14Q schedules, the filing deadline will be extended to (1) 90 days after the quarter-end for the first two quarterly submissions and (2) 65 days after the quarter-end for the third and fourth quarterly submissions. Beginning with the fifth quarterly submission, these respondents will be required to adhere to the standard Consolidated Financial Statements of BHCs (FR Y-9C; OMB No. 7100-0128) reporting deadlines.¹⁰ For the Y-14M schedules, the initial deadline will be 90 days after the end of the reporting month, at which time data for all three intervening months would be due. For example, a new respondent for the

⁸ See, for example, 12 U.S.C. 1844(c).

⁹ During the public comment period for proposed revisions implemented on June 30, 2012, a similar industry comment was received. The comment was addressed in the final *Federal Register* notice published on June 4, 2012 (77 FR 32970).

¹⁰ The standard FR Y-9C reporting deadlines are: 40 calendar days after the calendar quarter-end for March, June, and September and 45 calendar days after the calendar quarter-end for December.

September 30 reporting period will be expected to submit data corresponding to the September 30, October 31, and November 30 reporting periods by December 31. The Federal Reserve will implement the filing deadline for the Y-14A schedules as proposed.

B. FR Y-14A: Summary Schedule

1. Income Statement and Balance Sheet Worksheets

The Federal Reserve proposed revising 14 of the 19 worksheets¹¹ in the Summary schedule (which, for the most part, collects current quarter data plus nine quarters of projections for the same data items), which included adding more granular breakouts on various schedules. Several commenters noted that the proposed collection of more granular projections data for portfolio balances and associated losses does not align with BHCs' internal reporting and projections. The Federal Reserve acknowledges the proposed increase in respondent burden; however, the Federal Reserve believes that these additional data items will substantially enhance the ability to evaluate BHCs' stress test results consistently across BHCs. Each proposed product type has a unique risk profile, and, therefore, projecting balances at the granular product level should provide a better understanding of BHCs' overall risk exposure.

Originally, the Federal Reserve proposed adding to the *Income Statement and Balance Sheet* worksheets granular breakouts of the Allowance for Loan and Lease Losses (ALLL) and loan-loss provisions by loan category. Two commenters questioned the need for the proposed disaggregation of the ALLL, noting that the FR Y-14 proposal was not consistent with the proposed revision to Schedule RI-C of the commercial bank Consolidated Reports of Condition and Income (Call Report; FFIEC 031 and 041; OMB No. 7100-0036), as described in the *Federal Register* (76 FR 72035, November 21, 2011).¹² The asset categories on the Income Statement and Balance Sheet worksheets of the FR Y-14A Summary schedule generally parallel those of the FR Y-9C and Call Report, but differ when the stress testing process requires different categorizations. At a more aggregate level, the categories for the ALLL and loan-loss provisions are generally aligned with those on the Income Statement and Balance Sheet worksheets. In order to assess whether BHCs' provisions are consistent with projected losses, the Federal Reserve will implement the revisions, as proposed.

2. Retail Balance and Loss Projections Worksheet

Several commenters noted that the proposed increase in the granularity of balance and loss projections does not align with BHCs' internal reporting and projections. The Federal Reserve acknowledges that the increase in data items will increase respondent burden, but believes that these data items will enhance the Federal Reserve's ability to

¹¹ The worksheets include: *Income Statement, Balance Sheet, ASC 310-30, Retail Balance and Loss Projections, Retail Repurchase, Securities OTTI by Portfolio, Securities OTTI Methodology, Securities AFS Market Shock, Securities Market Value Sources, Trading Risk, Counterparty Risk Worksheet, and three PPNR worksheets.*

¹² This revision to the Call Report has been proposed but not yet implemented.

conduct supervisory stress tests. Each proposed product type has a unique risk profile, therefore, projecting balances at the granular product level should provide a better understanding of BHCs' overall risk exposure. However, to reduce burden, the Federal Reserve will reduce the granularity associated with certain product types to which the industry generally has less exposure.

In an effort to streamline the Summary schedule, the Federal Reserve proposed combining the *Retail Balance* and *Loss Projections* worksheets, and adding data items to capture more details about balance projections. The Federal Reserve proposed that BHCs break out projected credit card balances into two segments: balance projections on existing accounts and balance projections on new accounts. One commenter suggested not collecting balance projections for credit card products by vintage given that BHCs do not necessarily project credit card balances by vintage. The Federal Reserve recognizes that there is burden associated with breaking out balance projections by vintage, and therefore will eliminate the projections by vintage for certain portfolios to which the industry generally has less exposure.

3. Retail ASC 310-30 Worksheet

The Federal Reserve originally proposed significantly revising the *Retail ASC 310-30* worksheet, which collects data on purchased credit impaired (PCI) loans, by expanding the number of data items requested in order to better align with accounting definitions for the loans reported in the PCI portfolio. The new data items would collect information about the portfolios' carrying value, allowance, provisions to and charge-offs from the allowance, estimates of cash flows to be collected over the life of the loan, the nonaccretable difference and its components, changes to the nonaccretable difference, and the accretable yield and its components. Several commenters expressed concern about their ability to split requested data items into principal and interest components, the difficulty of projecting cash-flows in the various macroeconomic scenarios, and the difficulty with gathering the data requested from their loan processing systems and accounting systems.

In response to the industry comments, the Federal Reserve will revise the worksheet to reduce the number of required data items from 32 to 13. The Federal Reserve will remove the distinction between principal and interest, as well as delete certain data items related to cash flows, changes to the non-accretable difference, and changes to the accretable yield. These will be replaced with data items requesting unpaid principal balance, the total original contractual amount of PCI loans that would be deemed charged off or identified as loss under a non-PCI charge-off policy (i.e. losses in the quarter that would be offset at some point against the non-accretable difference and/or the PCI Allowance) and overall movement of the non-accretable difference. The Federal Reserve believes that the revised schedule will substantially alleviate the burden associated with procuring the data from the BHCs information systems.

C. Summary Schedule (Capital Worksheet) and Annual Basel III/Dodd-Frank Schedule

The *Capital* worksheet contained in the annual Summary schedule and the annual Basel III/Dodd-Frank schedule are being modified to reflect anticipated final rules that would implement the stress test requirements under Dodd Frank. The *Capital* worksheet instructions will be modified to require BHCs to provide an additional *Capital* worksheet for each of the adverse, baseline, and severely adverse scenarios using capital assumptions that are required under any final stress testing rules that the Federal Reserve may issue. The annual Basel III/Dodd-Frank schedule instructions will be modified to require BHCs to provide an additional schedule for the baseline scenario only using capital assumptions that are required under any final stress testing rules that the Federal Reserve may issue.

D. FR Y-14A/Q Pre-Provision Net Revenue (PPNR) Annual Worksheet and Quarterly Schedule

In an effort to better understand the core drivers of BHCs revenues and expenses, The Federal Reserve originally proposed revising certain annual and quarterly PPNR data items, increasing granularity of several data items, and adding a new business line into the components of revenues (on the annual *PPNR Projections worksheet* and the quarterly *PPNR Submission worksheet*).¹³

One commenter noted that, in some instances, certain historical data may not be available due to organizational restructuring. The Federal Reserve agrees with this comment and is considering ways to develop a process and criteria to address this issue, as appropriate.

Another commenter requested eliminating the disclosure of legal reserves data to be consistent with other FR Y-14 schedules regarding the level and frequency of reporting legal reserves data. In response to the comment, the Federal Reserve will delete the data items for “Provisions to Litigation Reserves/Liability Specific to Sold Residential Mortgage Claims” on the annual *PPNR Projections worksheet* and on the quarterly *Submission worksheet (PPNR Submission/Projections)*. Such provisions will instead be reported, in the aggregate, as part of the Operational Risk Expense in both the quarterly PPNR schedule and annual PPNR worksheets. Furthermore, the Federal Reserve will delete the “Legal Expenses and Litigation Settlements & Penalties (unrelated to Operational Risk and not reported elsewhere)” data item and instruct the BHCs to add the “Legal Expenses” (i.e. the routine “business as usual” legal expenses) to the “Professional and Outside Services Expenses” data item and the “Litigation Settlements & Penalties” to the “Operational Risk Expenses” data item.

¹³ The proposed revisions included: a new breakout for credit card revenues would split interchange revenues from reward activity and partner-sharing contra-revenue; revenue from the mortgage and home equity business line would be split into production and servicing income; provisions to reserves for representations and warranties and repurchase obligations and other liabilities related to sold mortgages also would be split out; revenue related to retail and small business deposits would separate overdraft fees; and a new business line for Merchant Banking/Private Equity would be added; previously this business line had been included among the other business lines, typically Investment Banking.

Currently, BHCs with deposits equal to at least one-third of liabilities may choose either the *PPNR Submission/Projections* worksheet or the *PPNR Net Interest Income* worksheet as “Primary Net Interest Income” with the other worksheet designated as “Supplementary Net Interest Income.” Reporting requirements are reduced on the net interest income portion of the “Supplementary” worksheet. BHCs that have deposits equal to less than one-third of total liabilities must designate the *PPNR Submission/Projections* worksheet as Primary and are not required to report any data on the *PPNR Net Interest Income* worksheet. In the proposal that was published for comment, the Federal Reserve proposed removing the Primary/Supplementary distinction and making all data items mandatory (subject to certain criteria described in the instructions).

The trade associations and one other commenter suggested retaining the Primary/Supplementary distinction. One commenter also suggested allowing BHCs to report average balances and yields on the *PPNR Net Interest Income* worksheet at a lower level of detail than was proposed. The commenters cited concerns including increased burden and limited usefulness of data created for purposes outside BHCs’ regular internal practice. In response to these comments, the Federal Reserve will retain the Primary/Supplementary designation but change how the primary/supplementary designation is assigned and make all net interest income data items mandatory (subject to certain criteria). Further, for all BHCs with deposits above the threshold, the *PPNR Net Interest Income* worksheet should be designated as “Primary Net Interest Income” and for BHCs that are not required to complete the *PPNR Net Interest Income* worksheet that the *PPNR Submission/Projections* worksheet should be designated as “Primary Net Interest Income.” The Federal Reserve also proposed lowering the reporting threshold for the *PPNR Net Interest Income* worksheet to deposits equal to one-quarter of total liabilities. Since no comments were specifically received, the Federal Reserve will implement the reporting threshold revision as proposed.

The trade associations commented that reporting the proposed data items on the *PPNR Net Interest Income* worksheet would require time and suggested providing a delayed submission deadline (as was done with the submission deadline when the FR Y-14 was implemented in 2011). Although the Federal Reserve acknowledges the increase in respondent burden for certain BHCs, the Federal Reserve believes that these data items will enhance the ability to identify the vulnerability of BHCs to macroeconomic stress and will implement the revisions on the proposed timeline.

Originally, the Federal Reserve proposed adding credit card rewards and partner-sharing in the non-interest income and non-interest expense sections of the *PPNR Submission/Projections* worksheets. The trade associations requested additional guidance regarding credit and debit card rewards and partner-sharing contra-revenue and expense data items. In the case of credit cards, they also requested clarification around how rewards and partner-sharing data should be reported across net interest income, non-interest income, and non-interest expense components of PPNR. In response, and to reduce burden, the Federal Reserve will eliminate the breakout of credit card rewards and partner-sharing on the *PPNR Submission/Projections* worksheets. The Federal Reserve will also add a credit card rewards and partner sharing data item to the *PPNR Metrics*

worksheet. BHCs will be required to indicate which data items on the *PPNR Submission/Projections* worksheet include the credit card rewards and partner-sharing data item.

One commenter asked whether the “Sales and Trading Segment/Prime Brokerage/Total Revenue (incl. Net Interest Income)” data item in the *PPNR Metrics* worksheet should be defined as the combination of the “Prime Brokerage” non-interest income data item and the portion of the “Sales and Trading” net interest income data item related to prime brokerage in the *PPNR Submission* worksheet. To simplify the reporting of these data items, the Federal Reserve will remove the “Sales and Trading Segment/Prime Brokerage/Total Revenue (incl. Net Interest Income)” data item on *PPNR Metrics* worksheet and break out Net Interest Income for the Sales and Trading data item into “Prime Brokerage” and “Other” on the *PPNR Submission/Projection* worksheet.

One commenter requested clarification on the types of accounts that should be included in the “Total Deposit Accounts” data item in the “Retail and Small Business Segment” on the *PPNR Metrics* worksheet. The Federal Reserve will revise the data item to require the reporting of only “Total Open Checking and Money Market Accounts” as of the end of the reporting period.

One commenter requested clarification on the definition of the term “curve” in relation to the “New Business Pricing for Time Deposits” data item in the “Average Retail Deposit Repricing Beta” section of the *PPNR Metrics* worksheet. To clarify the requested data item, the Federal Reserve will provide an additional option for reporting “New Business Pricing for Time Deposits.” Specifically, if BHCs only assume a single maturity term for new issuances, then they would provide the relative index and spread used to estimate new business pricing in lieu of the curve.

E. FR Y-14Q MSR Valuation Schedule

Originally, the Federal Reserve proposed implementing the quarterly MSR Valuation schedule that would collect information on the data that BHCs use to value their MSRs and the sensitivities of those valuations to changes in economic factors. Several commenters stated that the proposal did not provide sufficient time to properly modify and validate the MSR modeling changes required to produce the data. The Federal Reserve agrees with the comments and further concedes that BHCs should be allotted sufficient time to implement model changes and validate the changes in compliance with SR 11-7 (Guidance for Model Risk Management). The Federal Reserve will delay the implementation of the new quarterly MSR schedule until March 31, 2013.

One trade association expressed various concerns with the proposed new MSR schedule, stating that: (1) it appeared to collect duplicative data already available through other external reporting mechanisms, including a survey conducted by the Office of the Comptroller of the Currency (OCC); (2) the questions should be included in pre-examination requests instead of requiring servicers to report the data on a quarterly basis

(if the purpose of the MSR schedule was to gather information in advance of a safety and soundness examination); and (3) many servicers are not part of a BHC and therefore, the schedule would not necessarily include data from all major market makers that affect fair value. Further, the commenter noted that the proposed restrictions on MSR assets contained in the Basel III notices of proposed rulemaking (NPR)¹⁴ may dramatically change the servicing competitive landscape, with more and more servicing being performed by non-depository institutions, and therefore, the overall data received could become less meaningful.

Prior to proposing the new MSR schedule, the Federal Reserve evaluated the feasibility of obtaining MSR data from external sources; however, several potential supervisory concerns were noted with this approach. First, not all BHCs supervised by the Federal Reserve complete the external surveys mentioned above. Second, certain metrics collected via external sources differ by type or by construct, or are not collected at all, which may generate a lack of comparability across BHCs. The Federal Reserve concluded that the proposed FR Y-14Q schedule would facilitate the timely supervision of BHCs on both a continuous monitoring and examination basis; therefore, the Federal Reserve will implement the data requirements for the MSR schedule as proposed.

One commenter noted that the MSR schedule would not increase the comparability of MSR valuations across all BHCs due to the range of valuation techniques, various prepayment and default models, different assumptions, and servicing portfolio characteristics unique to each BHC. The Federal Reserve recognizes that modeling methodologies, assumptions, and product structures are unique to each BHC, and these differences are considered when evaluating BHC MSR valuation. In addition, the Federal Reserve may augment this data collection with other information, such as information collected from BHC examinations, which will allow the Federal Reserve to better assess the risk of each BHC's MSR portfolio.

One commenter stated that the proposed MSR valuation sensitivity metrics in the MSR schedule, including metrics related to implied swaption volatility, servicing cost, sensitivity to macroeconomic conditions, and ancillary income, should be revised because they may not be direct inputs into some of the models used by the industry. The Federal Reserve believes that the delayed implementation, as well as clarifying the instructions, will address these issues.

F. FR Y-14A Regulatory Capital Instruments Schedule

One commenter noted an error on the *Capital Position Reconciliation* worksheet. In the draft schedule posted for public comment, the funded instruments data items erroneously referred to the *Proj. Actions & Balances* worksheet. The Federal Reserve will revise the annual Regulatory Capital Instruments schedule to reflect the correct references in the *Capital Position Reconciliation* worksheet.

¹⁴ On August 30, 2012, the OCC, the Board, and the Federal Deposit Insurance Corporation published for comment three NPRs that would revise and replace the agencies' current capital rules (77 FR 52791, 52887, and 52997).

G. FR Y-14A and Q Basel III/Dodd-Frank Schedule

Originally, the Federal Reserve proposed revising the annual and quarterly Basel III/Dodd-Frank schedules. To both schedules, the Federal Reserve proposed making definitional and calculation revisions consistent with the final Market Risk Capital rulemaking (Market Risk rule). To the FR Y-14A schedule, the Federal Reserve proposed adding two worksheets and refining the *Planned Action worksheet*. To the FR Y-14Q schedule, the Federal Reserve proposed adding worksheets and data items.

Several commenters noted errors or inconsistencies in the draft annual and quarterly schedules published for public comment. In response to those comments, the Federal Reserve will shorten the projection period for the annual schedule from 2019 to 2017, add a Comprehensive Risk Measure (CRM) surcharge data item to the annual schedule, and revise the quarterly schedule to include the correct start date of third quarter 2012.

Due to the timing of the publication of the FR Y-14 initial *Federal Register* and publication of the three capital NPRs, the Federal Reserve published questions in the FR Y-14 initial *Federal Register* notice directly soliciting feedback on the requirements for preparing both the annual and quarterly Basel III/Dodd-Frank schedules. Together, three trade associations provided a detailed comment requesting confirmation whether, for purposes of CCAR 2013, BHCs' capital plans and the FR Y-14A Basel III/Dodd-Frank schedule would be prepared (1) based upon the proposed requirements in the Basel III NPR and the Advanced Approaches NPR but (2) without regard to the proposed requirements in the Standardized Approach NPR. While this comment was specific to the annual schedule, the Federal Reserve will require BHCs to use the Basel III NPR and the Advanced Approaches NPR to prepare the annual and quarterly Basel III/Dodd-Frank schedules consistently instead of the Basel Committee on Banking Supervision (BCBS) guidance which was used during the prior CCAR exercise.

Specifically, the Federal Reserve will revise the Basel III/Dodd-Frank schedules to be consistent with the NPRs, including (1) revising the Accumulated Other Comprehensive Income calculator, (2) revising the 10% and 15% regulatory threshold deductions, (3) breaking out additional Tier 1 capital deductions, (4) collecting data and corresponding calculations consistent with the final Market Risk rule and the proposed requirements of the Advanced Approaches NPR (for applicable BHCs), (5) revising the Market RWA calculation to reflect the Market Risk rule's CRM, (6) revising the Credit RWA associated with Credit Valuation Adjustment capital charges, (7) collecting data relevant to the Tier 1 Leverage Ratio and Supplementary Leverage Ratio, and (8) revising data descriptions relevant to the Supplementary Leverage Ratio.

H. FR Y-14Q Retail Risk Schedule

Originally, the Federal Reserve proposed revising the Retail Risk schedule to remove data items no longer needed and add risk characteristics to existing portfolios. One

commenter noted that the *Domestic Auto* portfolio was not included with the files posted to the Federal Reserve Board's public website during the public comment period, even though the OMB Supporting Statement noted that a revision (from the Vintage segment to Age) was proposed for all FR Y-14Q Retail schedules that included the Vintage segment. The Federal Reserve acknowledges that the template was not provided and will apply the revision consistently across all FR Y-14Q Retail templates, including the *Domestic Auto* portfolio.

To the *Domestic Student Loan* portfolio, the Federal Reserve originally proposed adding a segment variable to capture the level of education being pursued by the borrower. One commenter suggested adding a new category to the Level of Education segment in the FR Y-14Q *Domestic Student Loan* portfolio to allow for the reporting of consolidated loans for which level of education is not applicable. The Federal Reserve will clarify the instructions to specify that, for consolidated loans, the highest level of education pursued by the borrower should be reported. Further, the Federal Reserve will add a new category for instances in which the level of education of the borrower is not available.

I. FR Y-14Q Supplemental Schedule

Originally, the Federal Reserve proposed implementing the quarterly Supplemental schedule to ensure that they would have a consistent view of BHCs' exposures that are collected at different levels of granularity. The proposed schedule would allow the Federal Reserve to identify factors contributing to the gaps between the FR Y-9C aggregate data and the data collected in the FR Y-14. One commenter noted material inconsistencies between definitions in the Supplemental schedule and the Retail *Small Business Loan* worksheet, Retail *Small Business and Corporate Card* worksheet, and Wholesale *Corporate Loan* collection. The Federal Reserve agrees that inconsistencies in certain definitions exist and will enhance the reporting requirements to allow flexibility for BHCs to report the data in a way that is consistent with the definitions in the other FR Y-14Q and M schedules.

J. FR Y-14Q Trading, Private Equity, and Other Fair Value Assets (Trading Risk) Schedule

Originally, the Federal Reserve proposed revising various worksheets and adding a worksheet to the Trading Risk schedule. Several commenters made suggestions related to the *Corporate Credit – Advance*, *Corporate Credit – Emerging*, *IDR*¹⁵, and *Credit Correlation* worksheets, including: adding a row to capture exposures that do not readily fit into the specified segments, making the reporting categories across worksheets consistent, and deleting the crossover category in the *Corporate Credit* worksheet as it could be implied from market observations. The Federal Reserve will revise the worksheets to make them consistent and add new rows to capture exposures that do not readily fit into the specific segments. While the Federal Reserve agrees that the way in which the crossover category was presented leaves ambiguity as to what was requested, the Federal Reserve does not agree that the underlying information is sufficiently implied

¹⁵ IDR is defined as Incremental Default Risk.

from market observations. As such, the Federal Reserve will adjust the *Corporate Credit – Advanced*, *Corporate Credit – EM*, *Credit Correlation*, and *IDR - Corporate Credit* worksheets to more precisely capture the information in the crossover and related indexes.

One commenter noted that the attachment/detachment points in the *Credit Correlation* worksheet are not feasible for market values and notionals since the positions would have very large overlapping attachment and detachment points. Further, the commenter suggested simplifying the long and short breakout tables to only three buckets for clarity and consistency: (1) an "Equity Tranche" bucket for a position that has an attachment point of 0%, (2) a "Mezzanine Tranche" for any position that has a non-0% attachment and non-100% detachment, and (3) a "Super Senior Tranche" for positions with a detachment point of 100%.

The Federal Reserve agrees that, for bespoke products, the breakouts in the proposal would be challenging to report. However, for index tranches, which are standardized, the Federal Reserve believes that the breakouts in the proposal will be feasible. Further, having such breakouts will enhance the ability to understand correlation sensitivity. Therefore, the Federal Reserve will implement the approach suggested by the commenter for bespoke products but will implement the more granular breakouts for index tranches as originally proposed.

One commenter noted that the schedule currently requires the reporting of corporate owned and business owned life insurance (COLI/BOLI) on the Other Sector/Industry row of the *Other Fair Value Assets* worksheet, and suggested creating a separate category so that BHCs could explicitly state how much exposure BHCs have to COLI/BOLI. Given the size of these exposures, the Federal Reserve agrees with this comment, and will add a row to capture COLI/BOLI separate from the Other Sector/Industry exposures.

One commenter suggested disaggregating the *Municipal* worksheet into taxable and tax exempt bonds. While the Federal Reserve agrees that the suggested disaggregation has merit, they believe such disaggregation might be more challenging for some BHCs than for others and will investigate the challenges further before disaggregating the worksheet.

K. FR Y-14Q Operational Risk Schedule

The February 2012 proposal requested event level data for each legal reserve and required that BHCs (1) associate each reserve with an accounting date, Basel level 1 event type and business line; (2) note whether the reserve had been included in the BHCs' capital models; (3) give the amount of the reserve and (4) provide a description for events over \$250k. Several commenters expressed concern with the proposed method as they feared if the data were to be disclosed, or if it became discoverable as part of ongoing litigation, it would risk prejudicing the outcome of a pending case. Additionally, commenters stated that because the reserve amount was often highly dependent on the judgment of BHCs' legal counsel, it could be a violation of attorney-client privilege. In a

letter dated May 24, 2012, the joint trade associations submitted several possible alternatives.

In response to the comments, the Federal Reserve held a meeting on July 16, 2012, to discuss alternative methods proposed by both the Federal Reserve and the joint trade associations. The Federal Reserve circulated a document that articulated three alternative methods. The commenters expressed concern that these methods did not adequately address the possibility of deriving event-specific reserve information by combining the proposed data with other available data.

During the extended comment period, the Federal Reserve held three discussions with industry representatives and put forth two additional methods (for a total of five alternative methods) for collecting the legal reserves data in an effort to address concerns over the sensitive nature of the data. One of these methods suggested comingling legal reserve data with the BHC's entire operational loss data set submitted under the FR Y-14Q and eliminating the requirement of a detailed description item. The commenters felt that this alternative did not address their overall concerns. Another method suggested that the BHCs submit quarterly the frequency of events, aggregated by Basel level I event type, business line, and quarter of establishment; and a total BHC-wide aggregated legal reserve dollar amount. This level of aggregation would reduce the possibility that an outside observer could identify the existence and value of reserves related to any particular event. Commenters continued to express concern that the relationship between the yearly total reserve amount and an individual reserve might be inferred when a BHC reserved for a small number of events over a given year. However, the commenters also noted that this method appeared to be the most viable method of submitting legal reserve data that would allow the Federal Reserve to conduct its capital assessment and stress testing.

Based on the comments received and discussions with the industry, the Federal Reserve will revise the FR Y-14Q Operational Risk schedule to implement the latter method as described above. BHCs will report, on a quarterly basis, the number of legal reserves, categorized by quarter of establishment (starting in 2008), Basel level I event type, and business line.

As part of the proposal to revise the FR Y-14 as of September 30, 2012, the Federal Reserve proposed collecting various data items related to legal reserves on the FR Y-14A Summary schedule. One commenter requested that the Federal Reserve ensure that any other references to legal reserves be consistent with the decision reached on the FR Y-14Q Operational Risk schedule. Based on the concerns over data sensitivity expressed by the industry, the Federal Reserve will not implement the legal reserves data items specifically for litigation involving retail mortgage repurchases/claims on three worksheets in the Summary schedule: *Retail Repurchase*, *PPNR Projections*, and *Income Statement*. The Federal Reserve has previously used data on legal reserves related to repurchase litigation to adjust downward the supervisory mortgage repurchase loss projections, and anticipates that it may do so again. However, several BHCs commented that their repurchase litigation reserves were immaterial to their capital projections and

the BHCs would prefer not to reveal them even if the Federal Reserve were not to use them to adjust the supervisory projections. Accordingly, the Federal Reserve will establish a voluntary data item related to repurchase litigation reserves. The Federal Reserve will only adjust its supervisory mortgage repurchase loss projections if the BHCs provided that data in a new FR Y-14A Operational Risk schedule (described below).

L. FR Y-14A New Operational Risk Schedule

Based on the comments received related to legal reserves data and in an effort to streamline the collection of annual operational risk data, the Federal Reserve will implement a new FR Y-14A Operational Risk schedule. The schedule will contain two worksheets related to operational risk data submitted annually. The *Legal Reserves* worksheet will collect the mandatory “Legal Reserves” data item, and the voluntary data item, “Legal Reserves Pertaining to Repurchase Litigation.”¹⁶ In addition, the *OpRisk Historical Capital* worksheet (currently contained within the Summary schedule), which collects only historical data (not projection data as with the other worksheets contained within the Summary schedule) will be moved from the current FR Y-14A Summary schedule to the new Operational Risk schedule. As with the Summary schedule, only Basel II Mandatory or “Opt-In” BHCs will be required to complete the *OpRisk Historical Capital* worksheet in the new FR Y-14A Operational Risk schedule.

Board of Governors of the Federal Reserve System, September 28, 2012.

Margaret McCloskey Shanks
Associate Secretary of the Board

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¹⁶ In each firm's first submission of the FR Y-14A Operational Risk Schedule, it would be required to provide the historical data of the Legal Reserves data item annually as of September 30 of each year starting with 2008.